

Placer County Office of Education



Public Agency Review



Office of Audit Services

**Employer Code: 0235-050
Job Number: P09-022**

July 2010

PLACER COUNTY OFFICE OF EDUCATION

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RESULTS IN BRIEF

We reviewed the Placer County Office of Education's (COE) enrolled individuals, retirement contributions, member earnings and required retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Non-reportable compensation (car allowance) was reported.
- Special compensation (educational incentive) was not reported.
- Regular earnings were incorrectly reported as special compensation.
- Retirement contributions were not remitted timely.
- One individual was incorrectly enrolled into membership.
- Unused sick leave balances were incorrectly certified.
- Required ACES security documents were not completed/maintained.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period.

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Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

The employers' knowledge of the laws relating to membership and payroll reporting facilitates the employer in providing CalPERS with appropriate employee information. Appropriately enrolling eligible employees and correctly reporting payroll information is necessary to accurately compute a member's retirement allowance.

The Placer County Office of Education provides successful education programs designed to educate a wide variety of students with diverse needs; monitors the fiscal health of districts and provides support services to insure availability and appropriate use of resources to students served by school districts; offers technical and professional expertise to partnering agencies; and collaborates with school districts, governmental agencies, and community based organizations to increase student achievement and to enhance the development of youth in the county. Labor agreements and employment agreements outline all COE employees' salaries and benefits and state the terms of employment agreed upon between the COE and its employees.

The Placer County Schools, which includes the COE, contracted with CalPERS, effective July 1, 1949, to provide participation in CalPERS for local miscellaneous employees. The COE's certificated employees (i.e., school teachers) participate in the State Teachers' Retirement System.

Individual school districts within Placer County Schools input members' payroll into the Placer County School payroll system. The COE reports the monthly payroll for the school districts through CalPERS' ACES. The individual school districts are responsible for making the necessary changes during the school year to the employee's position, assignment, salary rate, and the addition or deletion of employees to the payroll system. The COE audits the information provided by the districts for any errors/discrepancies prior to entering the transactions into ACES.

The members reported on the payroll listing are grouped by unit codes. The unit code is a unique number assigned to the COE and each of the school districts that are reporting to CalPERS under the same employer code. The Placer County Schools, employer code 0235, is comprised of the County Office of Education, 17 school districts and one community college. We reviewed the COE and six school districts.

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For the purpose of reporting the results of our review, we used Employer Code 0235 in our review reports and the corresponding unit codes for the school districts reporting under this employer code. The following is a list of the COE and school districts we reviewed along with the unit codes:

Placer County Office of Education – Unit Code 050

Sierra Joint Community College District – Unit Code 042

Rocklin Academy – Unit Code 062

Tahoe-Truckee Unified School District – Unit Code 021

Alta-Dutch Flat Union Elementary School District – Unit Code 002

Newcastle Elementary School District – Unit Code 012

Roseville Joint Union High School District – Unit Code 032

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the COE's payroll reporting and enrollment processes as these processes relate to the Placer County School's retirement contracts with CalPERS. The objective of this review was limited to the determination that the COE complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on October 5, 2009 through October 8, 2009.

The review period was limited to the examination of sampled records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the contract and subsequent amendments the Placer County Schools had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the COE had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the COE's personnel and payroll procedures.

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- ✓ Reviewed the payroll transactions and compared the COE's payroll register with the data reported to CalPERS to determine whether the COE correctly reported employees' compensation.
- ✓ Reviewed the COE's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the COE's process for reporting payroll to CalPERS to determine whether the payroll reporting elements were reported correctly.
- ✓ Reviewed reported payroll to determine whether the payment of contributions and the filing of payroll reports were submitted within the required timeframes.
- ✓ Reviewed the COE's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the COE's classification of employees to determine whether the COE reported employees in the appropriate coverage groups.
- ✓ Reviewed the COE's calculation and reporting of unused sick leave balances for retiring employees.
- ✓ Determined whether the COE maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The COE may not accurately report compensation to CalPERS.	<p>We reviewed payroll records and compensation reported to CalPERS for a sample of 10 classified employees, including 12-month, 11-month, and 10-month employees, over fiscal year 2008/2009.</p> <p>The earnings reported to CalPERS were reconciled to the COE's payroll records. The COE accurately reported compensation to CalPERS for the employees in our sample, except for the following instances:</p> <p><u>Car Allowance Incorrectly Reported</u></p> <p>The COE incorrectly reported \$300.00 per month in car allowance as special compensation for one employee during the fiscal year reviewed. Car allowance is not a reportable item of compensation and therefore, should not be reported.</p> <p>Government Code, § 20636.1(c)(6), states, in part, "The board shall promulgate regulations that delineate more specifically and exclusively what constitutes special compensation...."</p>	<p>The COE should discontinue reporting car allowance. The COE should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>1. The COE may not accurately report compensation to CalPERS. (continued)</p>	<p>California Code of Regulations, § 571(a), exclusively identifies and defines special compensation items. This regulation does not include car allowance as an item of special compensation.</p> <p><u>Educational Incentive Not Reported</u></p> <p>One employee was paid an educational incentive (professional growth stipend) of \$225.00 in May 2009; however, the COE did not report this special compensation to CalPERS.</p> <p>Government Code, § 20636.1(c)(6), states, in part, "The board shall promulgate regulations that delineate more specifically and exclusively what constitutes special compensation...."</p> <p>California Code of Regulations, § 571(a), exclusively identifies and defines special compensation items that must be reported to CalPERS if they are contained in a written labor policy or agreement. This section defines educational incentive as "Compensation to employees for completing educational courses, certificates and degrees which enhance their ability to do their job. A program or system must be in place to evaluate and approve acceptable courses. The cost of education that is required</p>	<p>report has been sent to the COE and CalPERS ERSD as an appendix to our draft report.</p> <p>The COE should begin reporting educational incentive to CalPERS as special compensation. The COE should work with CalPERS ERSD to assess the impact of this non-reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this report has been sent to the COE and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The COE may not accurately report compensation to CalPERS. (continued)	for the employee's current job classification is not included in this item of special compensation."	
2. The COE may not report payrates in accordance with publicly available salary schedules.	We reviewed payrates reported to CalPERS and reconciled the payrates to the COE's public salary information to determine whether payrates for the sampled employees were properly authorized, paid and reported. We determined the payrates from the COE's payroll registers and payrates reported to CalPERS were in accordance with public salary information.	None.
3. The COE may not accurately report payroll information to CalPERS.	<p>We reviewed the payroll information reported to CalPERS for the 6/09-0 sampled service period. Our sample testing revealed that the COE correctly reported the payroll information to CalPERS except for the following instance:</p> <p><u>Regular Earnings Were Incorrectly Reported as Special Compensation</u></p> <p>The COE incorrectly reported regular earnings as special compensation for one employee who worked in a second position during July 2008 and August 2008. This employee worked as a Staff Secretary II (working at least one day each month) for a total of 217 days. The COE</p>	The COE should report all regular earnings for additional services rendered, not to exceed 40 hours per week, as regular earnings to CalPERS. The COE

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The COE may not accurately report payroll information to CalPERS. (continued)</p>	<p>averaged the employee's monthly earnings by dividing her annual salary over twelve months and reported the average monthly earnings each service period (with an hourly payrate).</p> <p>This employee also worked in a second position during July 2008 (42 hours) and August 2008 (90.5 hours) filling in as a receptionist; however, the COE considered this to be "out of class pay" and incorrectly reported the earnings as special compensation. The COE should have reported these earnings as regular earnings up to a maximum of 40 hours in a week (as a total for all positions) as required under Government Code § 20636.1(b)(1).</p> <p>Government Code, § 20636.1(b)(1), states, in part, "For noncertificated members, where the normal work schedule is less than 40 hours per week, payments for additional services rendered, not to exceed 40 hours per week, shall be reported as compensation earnable for all months of the year in which work is performed...."</p>	<p>should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the employee mentioned in this report has been sent to the COE and CalPERS ERSD as an appendix to our draft report.</p>
<p>4. The COE may fail to or did not submit payroll in a timely manner to CalPERS.</p>	<p>We reviewed the payroll information for six service periods January 2009 (1/09-0), February 2009 (2/09-0), March 2009 (3/09-0), April 2009 (4/09-0), May 2009 (5/09-0), and June 2009 (6/09-0) and determined that payroll reports were submitted timely;</p>	<p>The COE should ensure that retirement contributions are submitted within the required timeframe.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The COE may fail to or did not submit payroll in a timely manner to CalPERS. (continued)</p>	<p>however, retirement contributions were not received by CalPERS timely.</p> <p>Specifically, the COE remitted 90% of each sampled service periods' contributions one to six days late and the remaining balance of 10% was remitted fifteen to forty-seven days after the contributions were due. As a result, the contributions were not received by CalPERS within 15 calendar days following the last day of the pay period as required.</p> <p>California Code of Regulations, § 565, states, "Member and employer contributions shall be received in the System's Sacramento office on or before 15 calendar days following the last day of the pay period to which they refer."</p>	<p>The COE should work with CalPERS ERSD to assess the impact of this late reporting and determine what adjustments, if any, are needed.</p>
<p>5. The COE may not enroll all eligible employees into CalPERS membership.</p>	<p><u>Optional Membership</u></p> <p>Elected officers of a county superintendent of schools, school district, or community college district who serve on a public commission, board, council, or similar legislative or administrative body are eligible for optional rights if they continuously served in the office held on June 30, 1994.</p> <p>The COE is governed by the County Board of Education. For CalPERS purposes, these board members are</p>	<p>The COE should work with CalPERS ERSD to assess the impact of this incorrect enrollment and reporting and determine what adjustments are needed.</p> <p>A confidential list identifying the</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The COE may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>considered employees of the county, rather than employees of the County Superintendent of Schools, even if the board is fiscally independent of the county. County Board of Education members were not eligible for optional membership with the COE because they were considered county employees. One board member was enrolled under the COE effective July 1, 2002, based on having prior CalPERS membership. However, County Board of Education members are considered employees of the county and therefore, should not be enrolled by the COE.</p> <p>Government Code, § 20610, states, in pertinent part, "Every county superintendent of schools shall enter into a contract with the board for the inclusion in this system (1) all of the employees of the office of county superintendent whose compensation is paid from the county school service fund...."</p> <p>CalPERS Procedures Manual, page 21, states, in part, "County Board of Education members are considered, for CalPERS purposes, as employees of the county, rather than employees of the County Superintendent of Schools, even if the board is fiscally independent of the county...."</p>	<p>board member mentioned in this report has been sent to the COE and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The COE may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p><u>Temporary/Part-time Employees</u></p> <p>We selected a sample of nine temporary/part-time employees in fiscal years 2007/2008 and 2008/2009 to determine whether the individuals met CalPERS membership eligibility requirements. We determined that none of the sampled temporary/part-time employees met eligibility for membership and were properly excluded.</p> <p><u>Independent Contractor</u></p> <p>We reviewed the COE's IRS 1099 Miscellaneous Income forms for calendar years 2007 and 2008 in order to identify employees that may be misclassified as independent contractors. We determined that the thirteen selected individuals were properly classified as independent contractors and correctly excluded from CalPERS membership.</p>	<p>None.</p> <p>None.</p>
<p>6. The COE may unlawfully employ retired annuitants.</p>	<p>We reviewed the hours worked for four retired annuitants in fiscal years 2007/2008 and 2008/2009. Our sample testing revealed that the retired annuitants did not exceed the 960-hour threshold.</p> <p>We also determined that a bona fide separation from employment, per Government Code § 21220.5, was not needed as the sampled retired annuitants retired after</p>	<p>None.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
6. The COE may unlawfully employ retired annuitants. (continued)	reaching the normal retirement age or retired prior to the September 19, 2004 bone fide separation requirement law.	
7. The COE may not appropriately report members under the proper coverage group code.	Our sample testing revealed that the COE reported individuals under the appropriate coverage group code.	None.
8. The COE may not accurately report unused sick leave balances for retiring CalPERS members.	We selected a sample of nine retirees and reviewed their balance of unused sick leave hours at retirement to determine if the COE accurately reported unused sick leave days to CalPERS. We determined that unused sick leave balances for the sampled retirees were properly computed and accurately reported to CalPERS, except in two instances. Specifically, one retiree had 2,224.55 hours of unused sick leave hours at retirement which converted to 278.07 days of unused sick leave; however, the COE incorrectly certified 285.93 days (7.86 days over reported). Another retiree had 1,478.60 hours of unused sick leave hours at retirement which converted to 184.825 days of unused sick leave; however, the COE incorrectly certified 240.17 days (55.345 days over reported).	<p>The COE should review the unused sick leave balances of the members who retired during the review period to determine if their unused sick leave balance was properly reported to CalPERS.</p> <p>The COE should work with CalPERS BNSD to determine the impact of this incorrect reporting and what adjustments, if any, are needed.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The COE may not accurately report unused sick leave balances for retiring CalPERS members. (continued)</p>	<p>Government Code, § 20963, states, in part, "A state, school or school safety member, whose effective date of retirement is within four months of separation from employment with the employer subject to this section that granted the sick leave credit, shall be credited at his or her retirement with 0.004 year of service credit for each unused day of sick leave certified to the board by the employer. The certification shall report only those days of unused sick leave that were accrued by the member during the normal course of his or her employment and shall not include any additional days of sick leave reported for the purpose of increasing the member's retirement benefit."</p>	<p>A confidential list identifying the retirees mentioned in this report has been sent to the COE and CalPERS BNSD as an appendix to our draft report.</p>
<p>9. The COE may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the COE's ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users. We found that the COE took reasonable precautions to maintain the secrecy of passwords and User ID's; however, the COE did not maintain one User Security Agreement and did not complete and file Delete ACES User Access forms for two employees who no longer required ACES access. These forms were completed by the COE during the onsite review.</p>	<p>The COE should ensure that ACES user security agreements are timely completed and retained in a secure worksite location for the life of the Agreements and for two years following the deactivation or termination of the Agreements.</p> <p>A confidential list identifying the employees mentioned in this report has been sent to the COE</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
9. The COE may not maintain appropriate ACES security procedures. (continued)	CalPERS ACES Security procedures outlined on the CalPERS website at www.calpers.ca.gov require agencies to keep a signed copy of security documents on file for ACES users. An "Employer User Security Agreement" (AESD-43) must be completed for each employee using CalPERS on-line access and be available to CalPERS upon request. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification or destruction.	and CalPERS ERSD as an appendix to our draft report.

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the COE's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

MARGARET JUNKER, CIA, CPA
Interim Chief Auditor,
Office of Audit Services

Date: July 2010

Staff: Michael Dutil, CIA, Senior Manager
Diana Thomas, CIDA, Manager
Karen Harlan
Terry Heffelfinger

APPENDIX

PLACER COUNTY
OFFICE OF EDUCATION'S
WRITTEN RESPONSE

Board of Education
Ms. Tami Brodnik
Area 1

Mr. Robert Tomasini
Area 1

Mr. Richard Colwell
Area 2

Mr. Scott Gnile
Area 3

Ms. Pam Robie Hart
Area 4

Mr. E. Ken Tokutomi
Area 4

Mrs. Lynn M. Oliver
Area 5

Superintendent's Cabinet
Keith J. Bray
Chief of Staff/General Counsel

Jerry Johnson
*Associate Superintendent
Business Services*

Renee Regacho-Anaclerio, Ed. D.
*Associate Superintendent
Educational Services*

Phillip J. Williams
*Assistant Superintendent
Special Education*

James L. Anderberg
*Executive Director
Administrative Services*

Catherine Goins
*Executive Director
Early Childhood Education*

Ward H. Andrus, Ed. D.
*Executive Director
Educational Innovation
& Career Development*

June 1, 2010

CalPERS

Attn: Margaret Junker, Interim Chief Auditor
Office of Audit Services
P.O. Box 942701
Sacramento, Ca. 94229-2701

Dear Ms. Junker,

We have reviewed the draft audit report regarding your staff's compliance review conducted 10/5/2009 through 10/8/2009. We appreciated your staff's efforts and the learning opportunity that these reviews provide. PCOE has implemented the recommendations presented and corrected the specific errors. However we need to express concerns regarding the specific findings in the report listed below.

Risk #4: Processes will be revised to ensure that PCOE submits the estimated 90% advance payment within the first 15 calendar days. However, the remaining 10% payment (remaining balance due after determining actual contributions due) is not known until the report is completed and all errors corrected. Report and final payment are submitted together. The observation states that the reports were received timely (before the end of the month) but the payments were received late (after the 15th). It is impossible to reconcile the report correcting all errors, determine the final payment, request a check be printed, and received by Cal PERS before the 15th of each month for each of our LEAs. PCOE will commit to processing payment in a timely manner. Additionally, the numbers of days late reflected in the observation is based on the date our checks cleared our bank not the date that CalPERS receives the check as outlined in CCR 565.

Risk #5: Staff will be reviewing the specific employee with CalPERS to determine the appropriate eligibility status. This employee has held the position continuously since 1992, without a break in service from either PCOE or PERS creditable service. PERS regulations stated for optional membership is that they "... are eligible for optional rights if they continuously served in the office held on June 30, 1994." PCOE has documents on file confirming the employee's eligibility and arrears payment from CalPERS dated 11/14/2002. The 11/14/2002 letter and PERS regulations listed in the observation are in direct conflict with the finding. PCOE will look to CalPERS to resolve this conflict.

The recommendations, other than cited above, are reasonable and PCOE is committed to compliance with all issues. Please contact me at your convenience if you have any questions on this issue.

Sincerely,



Jerry Johnson
Associate Superintendent
Business Services

c: Kathy Garrison
Nancy McGivney
Cindy Davis